



THE ISLAND TELEPHONE COMPANY LIMITED

**annual report
1973**

THE ISLAND TELEPHONE COMPANY LIMITED

Incorporated under the laws of the Province of Prince Edward Island

Head Office: 71 Belvedere Avenue, Charlottetown, Prince Edward Island, Canada C1A 1R5

Telephone (Area Code 902) 894-5501

1973 Annual Report to the shareholders

REGISTRAR AND STOCK TRANSFER OFFICES

Canada Permanent Trust Company,

129 Kent Street, Charlottetown, P.E.I.

(Common shares, $4\frac{1}{2}\%$ Preference shares, $4\frac{3}{4}\%$

Preference shares, $5\frac{1}{2}\%$ Preference shares and

$7\frac{1}{4}\%$ Preference shares)

600 Dorchester Boulevard, West, Montreal 101, Quebec

(Common shares, $5\frac{1}{2}\%$ Preference shares and

$7\frac{1}{4}\%$ Preference shares)

20 Eglinton Avenue, West, Toronto 1, Ontario

(Common shares and $7\frac{1}{4}\%$ Preference shares)

455 Granville Street, Vancouver, B.C.

($5\frac{1}{2}\%$ Preference shares)

1646 Barrington Street, Halifax, N.S.

($5\frac{1}{2}\%$ Preference shares and $7\frac{1}{4}\%$

Preference shares)

COMMON SHARES LISTED

Montreal Stock Exchange

Toronto Stock Exchange

VALUATION DAY PRICES

(December 22, 1971)

Common Shares	— \$10.25
$4\frac{1}{2}\%$ Preference shares	— \$ 6.25
$4\frac{3}{4}\%$ Preference shares	— \$ 6.60
$5\frac{1}{2}\%$ Preference shares	— \$15.25



Walter C. Auld,
Vice President



Donald R. Livingstone,
General Manager

ANNUAL MEETING

The annual general meeting of the shareholders of The Island Telephone Company Limited, will be held at the Head Office of the Company, 71 Belvedere Avenue, Charlottetown, P.E.I., on Tuesday, May 28, 1974, at 2:30 p.m.

This 1973 Annual Report is a summary of the operations of the Company in its 88th year of serving Prince Edward Island. It is prepared for those who have invested in our Company, for those who are interested in the Company's performance and for our employees.

Growth and rapid inflation produce mixed prospects

During 1973 your Company met demands for levels of service hardly dreamed of a decade ago, with new highs in installations, calling volumes and modernized services.

At the same time, quickly rising costs of money, materials and labor — coupled with shortages and delivery delays — gave clear indications of mounting problems in meeting these sustained demand levels in the coming year.

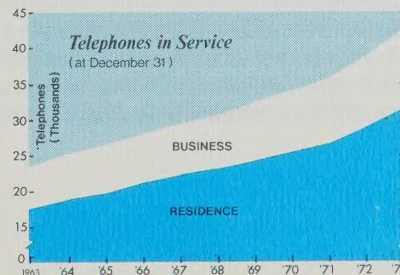
The 1973 capital construction program was a record \$5.6 million, well over the 1972 program of \$3.7 million, most of it expended to meet a net gain of 3,473 telephone installations.

Rate of return on average invested capital remained the same as the year before, at 8.77%; and return on average common equity was 12.28%, compared to 12.29% for 1972. Earnings per average common share rose from \$1.26 to \$1.34. Details of the financial year are to be found in the statements at the end of this Report.

Overall, the number of telephones in service rose by 8.94% — highest percentage gain in any of the Canadian provinces — as the Company completed another year in its growth, expansion and modernization program. This is estimated to cost \$27.2 million from 1972 to 1977, with construction program expenditures for 1974 now estimated at more than \$7 million.

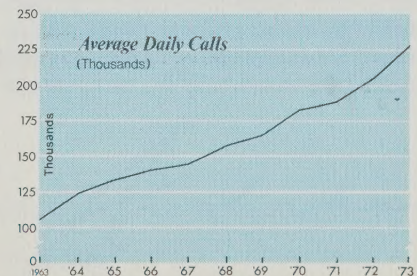
Growth in Service Improvements

- by the end of the year, there were 42,314 telephones in service, compared to 23,319 ten years ago.
- telephones per 100 persons in PEI stood at nearly 38 at year end, compared to 22 in 1963.
- there were 91 residence services for each 100 homes at year end, up from 65 in 1963.
- nearly 60% of residence customers have single line service, compared to 39% ten years ago.



More Calling:

- the total number of telephone calls handled by the Company in 1973 was 83.4 million, a daily average of 228,395 double that handled ten years ago.
- volume of long distance calling rose 15.6%, with the 1973 total of 3.9 million being more than double the 1963 volume
- with the provision during the year of Direct Distance Dialing to nearly 70% of the Company's total telephones, the ratio of dial telephone rose as well — to a new total of 83.5%, compared to 69.2% ten years ago



Direct Distance Dialing, mobile phone service highlight the year

Advances were made during the year on the major goals of the growth, modernization and expansion program.

- with the introduction of Direct Distance Dialing in May, an investment of \$1 million in DDD facilities was provided to serve 29,509 customers — or 69.7% of the province's total telephone customers
- Extended Area Service plans were enlarged, by which short-haul long distance call charges were eliminated. Now 77% of the customers served — a total of 32,599 — have this "free calling" feature between their own and neighboring communities
- some 2,000 telephones in the exchanges of Bedeque, Kinkora, Covehead and Tignish received dial telephone service during the year, with the ratio of dial telephones for the province rising to 83.5%
- more than two thirds of the rural lines serving the province had fewer than six phones per line by the end of the year, with the average number of rural or party-line customers per line dropping to 5.7, compared to 6.6 a year ago
- the program to bury wherever possible telephone cable and wire continued, with 300 miles of underground plant being plowed under in 1973 at a cost of \$625,000

Circuits Added

Usage of long distance facilities continued to increase, and long distance circuits within PEI, and others connecting the province to the mainland, were added during the year.

The 120-channel microwave system between Charlottetown and Summerside was replaced with a more modern 960-channel system. A special long distance feature introduced was "IN WATS" — for "inward wide area telephone service" - which provided direct long distance dialing from mainland points to the Charlottetown tourist bureau offices to aid the Charlottetown tourist Centennial promotion.

Mobile Phones

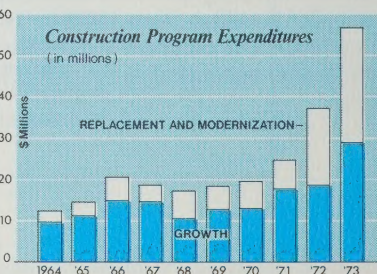
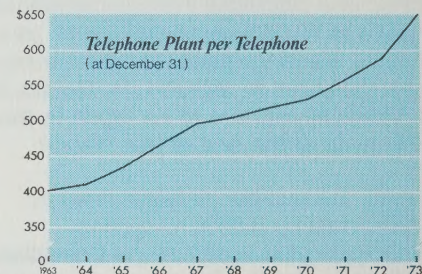
A new Mobile Exchange Service introduced during the year provided service for mobile telephone units in vehicles and watercraft within range of the Charlottetown mobile operator. Using this service, customers were able to access either the local or long distance networks while away from homes or offices.

As the year drew to a close, work was well underway on a combined new Head Office and Service Centre complex on Belvedere Avenue, on Charlottetown's outskirts. In addition, construction was underway for new dial switching centres for the communities of Vernon River, Murray River, Hunter River and Rustico.

\$5.6 Million Program

Overall, the \$5.6 million capital construction program for the year included \$2.32 million for growth of 3,473 telephones: this required the connection and disconnection of 19,750 phones, or nearly six orders worked for each telephone gained.

The remaining \$3.33 million of the program was for the replacement of existing but obsolescent equipment, and the provision of new equipment as part of the modernization and expansion program.



Salaries, Employees and Organizational changes

The number of employees, 258, remained virtually unchanged from the 1972 total of 259. Salaries and wages were \$1,919,000, an increase of 19.4% over the year before. In addition, payments of \$219,000, or 11.4% of the total payroll, included:

- \$133,000 added by the Company to the non-contributory pension plan
- payment for sickness, accident, group insurance and supplementary hospital insurance of \$48,000
- payments to the Canada Pension Plan, \$22,000; and Unemployment Insurance, \$16,000

As in the past, the higher rates of customer demand and the growing complexities of the telecommunications industry will continue to impose heavy demands on your Company. It is a credit to the men and women of the organization that in many aspects of the Company's operations their performance has been equal to the best in Canada.

Employee safety standards are stringent, and the Company's accident rate is extremely low. Employee benefits, subject to continual review and revision, are in keeping with present day needs. At the end of the year, an amount of more than \$1.5 million was held by an independent trustee to pay future pensions. This pension plan is financed entirely by the Company.

ORGANIZATION CHANGES

On May 25, following the Annual General Shareholders' meeting at which Walter C. Auld was elected to the Board, Mr. Auld was appointed vice-president of the Company. Appointed to the new position

of General Manager was Donald R. Livingstone, who had been engineering supervisor — outside plant design.

Both men bring long years of service to the Company in their new roles. The strengthened management position of the Company is a part of the plan for increasing the independence of the Company from its parent Maritime Telegraph and Telephone Co., Ltd.

At the same time, three officers who held parallel positions with Maritime Telegraph and Telephone Co., Ltd., resigned from the Company; they were Donald W. Myers, executive vice-president, W. Struan Robertson, vice-president — operations, and A. H. MacKinnon, vice-president — planning.

The services of each of these men had been invaluable in the recent growth and development of The Island Telephone Company.

BOARD OF DIRECTORS CHANGES

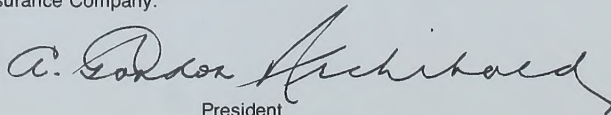
Coincident with these changes and with the election of Mr. Auld to the Board, was the election of two additional members to the Board, both life-long residents of PEI and both prominent in the Province's life: Charles J. Fraser, of Montague, former mayor, and past president of the Federation of PEI municipalities; and W. H. C. Leavitt, of Alberton, chairman of the Board of Governors of Holland College and past president of the Prince Edward Island Mutual Fire Insurance Company.

They replaced two Directors who resigned from the Board: Donald M. Gass, who had been manager of the Company from 1942 to 1961; and C. J. Morrow, former President and Chairman of National Sea Products Ltd., Lunenburg, N.S. Both these men had been active and dedicated Directors, and your Board records with gratitude its thanks for their many years of service in the Company's interest.

SUMMING UP

In many aspects of the Company's affairs during the year, 1973 was a period of change. For 1974 the same external conditions of escalating costs and rising market demands will continue. Construction program expenditures for 1974 are estimated at more than \$7 million, an unprecedented amount to meet these demands.

This will bear heavily on the Company's requirements for external financing when all signs point to higher interest rates and severe inflationary pressures on operating and capital costs. The Company must be in a strong position to meet these challenges, with revenues high enough to maintain a fair and reasonable rate of return on invested capital and to ensure the Company's credit and financial integrity. Whether this will be possible with present approved rates is doubtful, but trends will be more apparent as 1974 progresses.



President
For the Board of Directors
April 9, 1974

THE FINANCIAL YEAR

In brief

	1973	1972
Construction program expenditures (thousands)	\$ 5,648	\$ 3,702
Telephone plant per telephone, December 31	\$ 650	\$ 585
Telephones in service, December 31	42,314	38,841
Earnings per common share	\$ 1.34	\$ 1.26
Dividends per share	\$.62	\$.60
Average common shares	549,281	544,636
Return on average invested capital	8.8%	8.8%
Return on average common equity	12.3%	12.3%
Equity per common share, December 31	\$ 11.16	\$ 10.48
Long-term debt % total invested capital, December 31	52.6%	44.8%
Employees, December 31	258	259
Salaries and Wages	\$ 1,919	\$ 1,606

In statements

INCOME STATEMENT

For The Year Ended December 31, 1973

(With Comparative Figures for the Year Ended December 31, 1972)

	1973	1972
	\$	\$
Operating revenues		
Local service	3,371,800	2,915,200
Long distance service	3,061,900	2,434,000
Other (Note 2)	131,700	111,500
Uncollectible	17,500	20,300
	<u>6,547,900</u>	<u>5,440,400</u>
Operating expenses		
Maintenance	1,081,000	901,000
Depreciation (Note 1(a))	1,337,300	1,013,700
Traffic (Note 3)	893,800	780,500
Commercial & marketing	256,100	211,600
Administrative (Note 4)	285,500	221,300
Other (Note 5)	301,300	263,700
Taxes other than income taxes	118,300	101,800
	<u>4,253,300</u>	<u>3,493,600</u>
	2,294,600	1,946,800
Other income (Note 6)	<u>70,200</u>	<u>23,500</u>
Income before interest and income taxes	<u>2,364,800</u>	<u>1,970,300</u>
Interest		
Bond interest	449,600	474,400
Other (Note 7)	165,000	20,100
	<u>614,600</u>	<u>494,500</u>
	1,750,200	1,475,800
Income taxes (Note 8)	<u>829,100</u>	<u>672,400</u>
Net income for year	<u>921,100</u>	<u>803,400</u>
Earnings per common share	<u>1.34</u>	<u>1.26</u>

D. S. Inkpen,
Comptroller

The Island Telephone Company Limited

FINANCIAL POSITION STATEMENT

As at December 31, 1973

(With Comparative Figures as at December 31, 1972)

ASSETS

	1973	1972
	\$	\$
Telephone plant (Note 1 (a))		
Depreciable telephone plant in service	25,974,100	21,615,300
Other telephone plant (Note 9)	1,511,000	1,123,500
	<u>27,485,100</u>	<u>22,738,800</u>
Less accumulated depreciation	6,156,500	5,457,600
	<u>21,328,600</u>	<u>17,281,200</u>
Investments (Note 10)	<u>72,100</u>	<u>72,100</u>
Current assets		
Cash	45,600	89,300
Accounts receivable	796,100	628,800
Materials, at cost	267,300	287,600
Prepayments	43,700	37,000
	<u>1,152,700</u>	<u>1,042,700</u>
Deferred charges		
Unamortized long-term debt expenses	132,900	66,600
Other deferred charges (Note 11)	60,800	—
	<u>193,700</u>	<u>66,600</u>
	<u>22,747,100</u>	<u>18,462,600</u>

On behalf of the Board

LIABILITIES AND SHAREHOLDERS' EQUITY

	1973	1972
	\$	\$
Shareholders' equity		
Common stock (Note 12)	2,768,000	2,732,300
Premium on common stock (Note 13)	997,500	976,700
Retained earnings	2,413,700	2,018,900
	<u>6,179,200</u>	<u>5,727,900</u>
Total common equity	3,050,000	3,050,000
Preference stock (Note 12)	<u>9,229,200</u>	<u>8,777,900</u>
Long-term debt (Note 14)		
First mortgage bonds	9,750,000	6,450,000
Bank and other notes	480,000	675,000
	<u>10,230,000</u>	<u>7,125,000</u>
Current liabilities		
Due to Maritime Telegraph & Telephone Company, Limited	216,700	162,700
Accounts payable	436,700	461,400
Income taxes accrued	94,100	2,800
Interest accrued	69,300	62,600
Other current liabilities	65,300	56,800
	<u>882,100</u>	<u>746,300</u>
Deferred credits		
Income taxes (Notes 1(b) and 8)	2,401,800	1,791,200
Other deferred credits (Note 15)	4,000	22,200
	<u>2,405,800</u>	<u>1,813,400</u>
	<u>22,747,100</u>	<u>18,462,600</u>
Commitments (Note 17)		

W. C. Auld
Director

A. G. Archibald
Director

RETAINED EARNINGS STATEMENT

For The Year Ended December 31, 1973

(With Comparative Figures for the Year Ended December 31, 1972)

	1973	1972
	\$	\$
Retained earnings, beginning of year	2,018,900	1,712,600
Add:		
Net income for year	921,100	803,400
Deduct:		
Preference dividends	187,000	117,100
Common dividends	338,800	326,800
Commission & expenses of issuing preference stock	—	49,700
Other	500	3,500
	<u>526,300</u>	<u>497,100</u>
Retained earnings, end of year	<u>2,413,700</u>	<u>2,018,900</u>

AUDITORS' REPORT

To the Shareholders of
The Island Telephone Company Limited:

We have examined the financial position statement of The Island Telephone Company Limited as at December 31, 1973, and the income, retained earnings and changes in financial position statements for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1973, and the result of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Halifax, Canada
February 8, 1974

Clarkson, Gordon & Co.

Chartered Accountants

STATEMENT OF CHANGES IN FINANCIAL POSITION

For The Year Ended December 31, 1973

(With Comparative Figures for the Year Ended December 31, 1972)

	1973	1972
	\$	\$
Source of funds:		
Internal —		
Operating revenues and other income	6,618,100	5,463,900
Less charges requiring working capital (Note 16)	3,989,800	3,463,100
From operations	2,628,300	2,000,800
Deferred income taxes, prior years (Note 8)	150,300	—
Total internal	<u>2,778,600</u>	<u>2,000,800</u>
External —		
First mortgage bonds	4,000,000	—
Preference stock	—	1,500,000
Short term investments matured (Note 14 (b))	—	1,500,000
Bank and other notes	480,000	675,000
Employees' stock savings plan (Note 15)	39,200	32,800
Decrease in working capital	25,800	—
Total external	<u>4,545,000</u>	<u>3,707,800</u>
Total source of funds	<u>7,323,600</u>	<u>5,708,600</u>
Application of funds:		
Redemption of first mortgage bonds	700,000	300,000
Repayment of bank and other notes	675,000	1,250,000
Dividends	525,800	443,900
Investments (Notes 10 and 14 (b))	—	10,000
Other	128,400	21,600
Increase in working capital	—	219,700
Total application of funds (other than construction)	<u>2,029,200</u>	<u>2,245,200</u>
Total funds provided for construction	<u>5,294,400</u>	<u>3,463,400</u>
Funds used for construction:		
New telephone plant added	5,569,100	3,629,900
Cost of removing old plant	78,800	72,100
Construction program expenditures	5,647,900	3,702,000
Less charges not requiring working capital		
— Interest, pensions and expenses credited to income	119,200	76,300
— Salvage	218,800	150,000
— Other	15,500	12,300
	<u>353,500</u>	<u>238,600</u>
Total funds used for construction	<u>5,294,400</u>	<u>3,463,400</u>

The accompanying notes are an integral part of these financial statements.

(1) Summary of significant accounting policies -

(a) Telephone plant:

Telephone plant is carried at cost.

Depreciation is charged using component depreciation rates for classes of plant as approved from time to time by the Public Utilities Commission of the Province of Prince Edward Island. These rates provide for depreciating the assets over their estimated useful service lives and resulted in a current composite rate of 5.7% (1972, 5.1%).

Depreciation of plant acquired prior to 1972 has continued to be provided by the straight-line method, applied to each class of plant grouped by year of placing in service, at rates based on the average service life of each such annual group. Additions to telephone plant in 1972 and for the six months ended June 30, 1973 also were depreciated using this basis but effective July 1 1973, provision for depreciation of plant acquired in 1972 and thereafter has been refined by developing straight-line rates within each annual group in sub-groups of units which are expected to have equal service lives.

This refinement can be expected to result in higher depreciation charges during the early years for plant acquired after 1971 as it provides more accurately for early retirements and thereby the consumption of service life. Based on additions for the year ending December 31, 1973, the effect on net income was not significant.

(b) Income taxes:

Deferred tax accounting has been followed with respect to all timing differences.

(2) Other operating revenues — principally from directory advertising and circuit rentals.

(3) Traffic — expenses, principally wages, incurred in handling telephone calls.

(4) Administrative — executive, accounting, public relations, engineering and business information systems expenses.

(5) Other operating expenses — principally rents, service pensions and employee benefits.

(6) Other income — includes interest charged construction of \$72,100 (1972, \$43,100) less other income charges.

(7) Other interest — includes interest on bank and other notes of \$158,100 (1972, \$13,400) and amortization of long-term debt expenses amounting to \$4,900 (1972, \$5,200).

(8) Income taxes — During the year, the Company has made a change in the method of calculating income for tax purposes. This has enabled the Company to defer \$150,300 of income taxes paid in prior years.

The new method has also resulted in a reduction in current year's taxes payable to the extent of \$167,800. This change has no effect on the net income of the Company.

(9) Other telephone plant — land and telephone plant under construction.

(10) Investments — principally in Telesat Canada. Total investment in these shares is \$60,000.

(11) Other deferred charges — includes engineering costs incurred on capital projects not yet under construction.

(12) Capital stock —

	1973	1972
Authorized	<u>\$10,000,000</u>	<u>\$10,000,000</u>
	<u>Shares</u>	<u>Shares</u>
Issued:		
Common — par value \$5.00		
Beginning of year	546,464	542,076
Issued during year for cash (1973 — \$56,500, 1972 — \$28,800).	7,144	4,388
End of year	<u>553,608</u>	<u>546,464</u>
Preference — cumulative redeemable		
4 1/2% — par value \$10.00	40,000	40,000
4 3/4% — par value \$10.00	40,000	40,000
5 1/2% — par value \$20.00	37,500	37,500
7 1/4% — par value \$20.00	75,000	75,000
	<u>192,500</u>	<u>192,500</u>
Value, at par, of issued common and preference shares	<u>\$ 5,818,000</u>	<u>\$ 5,782,300</u>
(13) Premium on common stock —		
	1973	1972
Beginning of year	\$976,700	\$969,900
On shares issued during year	20,800	6,800
End of year	<u>\$997,500</u>	<u>\$976,700</u>

(14) **Long-term debt —**

(a) First mortgage bonds:

Series	Rate	Maturing		Principal
D	5½%	May	1, 1978	\$ 500,000
E	5½%	October	2, 1981	500,000
F	5½%	June	15, 1983	750,000
G	7⅜%	February	1, 1988	1,000,000
H	8%	December	15, 1991	3,000,000
I	9¼%	December	15, 1993	4,000,000
				<u>\$9,750,000</u>

(b) Bank and other notes:

Bank demand loans at prime rate	<u>\$ 480,000</u>
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In order to permit the Company to time its new issues of debt or capital stock most advantageously the Company maintains a substantial bank line of credit and from time to time sells short-term promissory notes. Such short-term credit is replaced in the normal course by longer term financing and currently maturing debt issues are likewise normally refinanced. For this reason the Company does not classify these items as current liabilities.

Likewise, the Company does not classify as current assets excess funds received through financing and temporarily invested in short-term investments.

(15) **Other deferred credits —** includes employees' stock savings plan as follows:

	1973	1972
Beginning of year	<u>\$17,600</u>	\$13,600
Add contributions, including interest	<u>39,200</u>	32,800
	<u>\$56,800</u>	\$46,400
Less common stock issued to employees under the plan	<u>56,500</u>	28,800
End of year	<u>\$ 300</u>	<u>\$17,600</u>

Generally, shares have been issued on June 30 of each year after the completion of twelve months of contributions. However, in July, 1973 the plan was changed to a calendar year basis and additional shares were issued in December, 1973. Effective July 1, 1970, the purchase price is equivalent to 80% of the average market price of the stock.

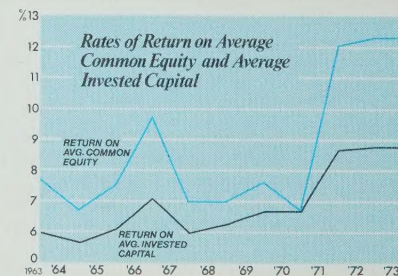
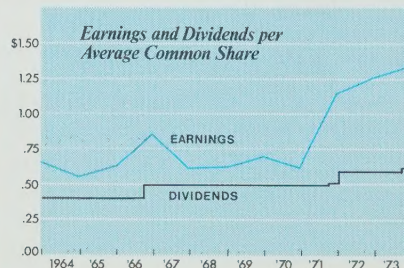
(16) **Charges requiring working capital —**

	1973	1972
Operating expenses, interest and taxes	<u>\$5,697,000</u>	<u>\$4,660,500</u>
Less charges not requiring working capital — Depreciation	<u>1,337,300</u>	1,013,700
— Deferred income taxes	<u>460,300</u>	240,200
— Other	<u>28,800</u>	19,800
	<u>1,826,400</u>	<u>1,273,700</u>
	<u>3,870,600</u>	<u>3,386,800</u>
Add credits not producing working capital — Interest, pensions and expenses charged to construction	<u>119,200</u>	76,300
	<u>\$3,989,800</u>	<u>\$3,463,100</u>

(17) **Commitments —** Unfunded pension benefit obligation: The latest actuarial valuation of the plan was made as at December 31, 1970 and established an unfunded pension benefit obligation of \$93,000 at that time. Subsequently, inter-valuations of the plan for the two years ended December 31, 1972 revealed that this unfunded amount had increased due to wage increases and additional pension benefits at a rate greater than the reduction being realized through payments being made against it. At December 31, 1973, the unfunded liability is estimated to be \$265,000 and is being funded by annual payments which are treated as costs in the current year, with the final payment to be made in December, 1995.

THE YEARS IN REVIEW

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Financial Position at Dec. 31 (in thousands)										
Telephone plant	\$ 27,485	\$ 22,738	\$ 19,837	\$ 18,069	\$ 16,776	\$ 15,508	\$ 14,454	\$ 12,982	\$ 11,491	\$ 10,328
Accumulated depreciation	6,157	5,458	5,063	4,606	4,198	3,817	3,517	3,089	2,891	2,549
Investments	72	72	1,562	106	83	31	12	212	12	62
Current assets	1,153	1,043	724	646	627	746	529	573	406	430
Deferred charges	194	67	105	37	38	41	78	57	51	44
Shareholders' equity	9,229	8,778	6,942	6,571	6,481	6,347	6,266	6,153	4,126	4,001
Long term debt	10,230	7,125	8,000	5,906	5,210	4,620	3,931	3,250	3,745	3,250
Current liabilities	882	746	647	422	390	447	336	423	390	367
Deferred credits	2,406	1,813	1,576	1,354	1,244	1,094	1,022	908	808	697
Income (in thousands)										
Operating revenues	\$ 6,548	\$ 5,440	\$ 4,784	\$ 3,903	\$ 3,589	\$ 3,274	\$ 2,967	\$ 2,770	\$ 2,331	\$ 2,031
Operating expenses	4,253	3,494	3,013	2,690	2,385	2,204	2,004	1,791	1,618	1,405
Other income	70	24	15	9	10	11	7	3	2	7
Interest	615	495	432	401	313	259	175	196	170	165
Income taxes	829	672	654	409	451	410	389	382	264	231
Net income for year	921	803	700	412	450	412	406	404	281	237
Statistics — at December 31										
Telephone plant per telephone	\$ 650	\$ 585	\$ 555	\$ 529	\$ 519	\$ 505	\$ 491	\$ 465	\$ 435	\$ 410
Equity per common share	\$ 11.16	\$ 10.48	\$ 9.95	\$ 9.35	\$ 9.27	\$ 9.09	\$ 9.02	\$ 8.92	\$ 8.58	\$ 8.38
Embedded debt cost	8.1%	6.8%	7.4%	7.1%	5.9%	5.9%	5.1%	5.1%	5.1%	5.1%
Long term debt % total invested capital	52.6%	44.8%	53.5%	47.3%	44.6%	42.1%	38.2%	34.6%	47.6%	44.8%
Employees	258	259	225	221	198	197	206	198	193	173
Telephones in service	42,314	38,841	35,715	33,999	32,314	30,683	29,465	27,900	26,412	25,202
Dial telephones	83.5%	78.7%	76.7%	73.9%	74.1%	72.1%	67.0%	67.1%	67.5%	68.2%
Shareholders	2,192	2,160	1,791	1,788	1,812	1,838	1,849	1,797	1,435	1,385
Statistics — for year										
Earnings per common share	\$ 1.34	\$ 1.26	\$ 1.15	\$.63	\$.70	\$.64	\$.63	\$.86	\$.63	\$.56
Average common shares	549,281	544,636	540,084	535,216	530,432	525,706	520,080	398,466	385,156	358,634
Dividends per common share	\$.62	\$.60	\$.51	\$.50	\$.50	\$.50	\$.50	\$.46	\$.40	\$.40
Times bond interest earned-before taxes	5.3	4.15	4.95	3.66	5.54	5.04	6.00	6.07	4.42	3.92
Times bond interest earned-after taxes	3.4	2.74	3.14	2.43	3.48	3.13	3.59	3.71	2.79	2.49
Return on average invested capital	8.8%	8.8%	8.7%	6.7%	6.7%	6.3%	6.0%	7.1%	6.1%	5.7%
Return on rate base	7.8%	7.9%	7.9%	6.1%	6.1%	5.8%	5.4%	6.3%	5.4%	5.2%
Return on Average common equity	12.3%	12.3%	12.0%	6.7%	7.6%	7.0%	7.0%	9.7%	7.5%	6.7%
Construction prog. expenditures (in thousands)	\$ 5,648	\$ 3,702	\$ 2,429	\$ 1,951	\$ 1,835	\$ 1,715	\$ 1,835	\$ 2,037	\$ 1,444	\$ 1,227
Salaries and wages (in thousands)	\$ 1,919	\$ 1,606	\$ 1,324	\$ 1,096	\$ 995	\$ 911	\$ 825	\$ 737	\$ 638	\$ 587
Average daily calls (in thousands)	228	204	188	183	165	157	145	141	133	124
Average daily toll messages (in thousands)	9	8	7	6	6	5	5	5	4	4



THE ISLAND TELEPHONE COMPANY LIMITED



DIRECTORS

***A. GORDON ARCHIBALD**

President
The Island Telephone Company Limited
Charlottetown, P.E.I.

***WALTER C. AULD**

Vice President
The Island Telephone Company Limited
Charlottetown, P.E.I.
Elected May 25

CHARLES JAMES FRASER

President
Montague Drive-In Theatre Ltd.
Montague, P.E.I.
Elected May 25

***DONALD M. GASS**

Charlottetown, P.E.I.
Retired May 25

***THE HONOURABLE FREDERICK W. HYNDMAN**

President
Hyndman & Company Limited
Charlottetown, P.E.I.

WILLIAM HERBERT C. LEAVITT

President
The Leavitt's Maple Tree Craft
Albertain, P.E.I.
Elected May 25

HORACE R. MACFARLANE

Manager and Secretary Treasurer
The Prince Edward Island Bag
Company Limited
Summerside, P.E.I.

CLARENCE J. MORROW

Director
National Sea Products Ltd.
Lunenburg, N.S.
Retired May 25

***DONALD W. MYERS**

Director
The Island Telephone Company Limited
Charlottetown, P.E.I.

***PERCY J. SMITH**

Director
Vice President
Great Eastern Corporation Ltd.
Halifax, N.S.

***FREDERICK M. WALLER**

Secretary and Executive Assistant
The Island Telephone Company Limited
Charlottetown, P.E.I.

*Member Executive
Committee

OFFICERS

A. GORDON ARCHIBALD

President

WALTER C. AULD

Vice President

THE HON. F. W. HYNDMAN

Vice President

FREDERICK M. WALLER

Secretary & Executive Assistant

JAMES L. CAMERON

Assistant Secretary &
Staff Supervisor

EDWARD J. HICKS

Treasurer

DAVID S. INKPEN

Comptroller

OPERATIONS

D. R. LIVINGSTONE

General Manager

MRS. E. M. BALLEM

Chief Operator

MRS. K. M. FRIZZELL

Chief Operator

A. E. HOLLAND

Supervisor — Test Centre
Trunks & Switching

RAYMOND LIVINGSTONE

Supervisor — Construction
Installation & Repair

D. W. McLANE

Commercial Supervisor

P. A. TRAINOR

Engineering Supervisor —
Outside Plant Design



THE ISLAND TELEPHONE COMPANY LIMITED

Printed in Prince Edward Island

AR16



THE ISLAND TELEPHONE COMPANY LIMITED

Six Month Report

TO JUNE 30th 1973



ISLAND TEL & TEL

Cancel

TO THE SHAREHOLDERS

Net income for the first six months of the year was \$469,546, compared to \$373,302 a year ago: earnings per average common share for the same comparative periods were \$.69 and \$.62 respectively.

Strong growth has continued in both the volume of long distance calling, an increase of more than 14% over a year ago, and in the number of telephones in service throughout Prince Edward Island, the total now being nearly 41,000, up nearly 9% over a year ago. The rate of return on average invested capital for the period was 8.76% and the return on average common equity was 12.92% for the period.

Capital construction expenditures for the six month period totalled \$2,443,637, compared to \$1,578,690 for the first six months of 1972. The estimated construction program expenditures for the year are \$5.8 million, as the Company's accelerated program continues in order to meet the rising demands for the telecommunication services centres throughout the Province.

A. S. Kirkland

July 26, 1973
Charlottetown, P.E.I.

President

SIX MONTH GROWTH

(compared to same period last year)

Long distance calls	1,455,299, up 14.2%
Salaries and wages	\$881,843, up 21.1%
Telephone gain	2,043, up 12.1%
Telephones in service June 30	40,884, up 8.9%
Employees June 30	282, up 4.4%

Condensed Financial Position Statement

	As at June 30	
	*1973	*1972
	\$	\$
Telephone plant	24,891,702	21,082,738
Accumulated depreciation	5,822,984	5,301,388
Investments	72,071	72,071
Current assets	1,115,049	856,344
Deferred charges	67,815	103,687
Shareholders' equity — preference	3,050,000	1,550,000
— common	5,939,985	5,555,953
Long-term debt — first mortgage bonds	6,450,000	6,750,000
— bank and other notes	2,130,000	735,000
Current Liabilities	589,973	505,161
Deferred credits	2,163,695	1,717,338

Interim Income Statement

	Six Months Ended June 30		Twelve Months Ended June 30	
	*1973	*1972	*1973	*1972
	\$	\$	\$	\$
Operating revenues	3,024,925	2,568,965	5,896,344	5,064,282
Operating expenses and other taxes (Note 1)	1,918,742	1,661,458	3,750,839	3,225,979
	1,106,183	907,507	2,145,505	1,838,303
Other income	35,784	29,592	29,741	35,737
Income before interest and income taxes	1,141,967	937,099	2,175,246	1,874,040
Interest	254,471	252,929	496,087	480,126
	887,496	684,170	1,679,159	1,393,914
Income taxes (Note 2)	417,950	310,868	779,572	641,658
Net income for period	469,546	373,302	899,587	752,256
Earnings per average common share	.69	.62	1.33	1.24
Average number of common shares outstanding	546,497	542,076	546,481	542,076
(Note 1) Includes depreciation of	557,275	491,092	1,079,909	968,106
(Note 2) Includes deferred taxes of	144,282	91,403	306,690	222,130

Source and Application of Working Capital

SOURCE OF WORKING CAPITAL

	Six Months Ended June 30	
	*1973	*1972
	\$	\$
Operating revenues and other income	3,060,709	2,598,557
Less charges to income requiring working capital	1,940,711	1,658,537
Working capital from operations	1,119,998	940,020
Deferred income tax adjustments prior years	150,344	(77)
Other	35,704	27,524
Total internal source	1,306,046	967,467
Bank and short-term loans	1,455,000	735,000
Repayment by parent of advance	xxx	1,500,000
Employees' stock savings plan	18,821	15,413
	2,779,867	3,217,880

APPLICATION OF WORKING CAPITAL

Construction program expenditures	2,443,637	1,578,690
Less charges not requiring working capital	149,908	97,088
	2,293,729	1,481,602
Redemption of long-term debt	xxx	1,250,000
Dividends	257,452	201,754
Investments	xxx	10,000
	2,551,181	2,943,356
INCREASE (DECREASE) IN WORKING CAPITAL	228,686	274,524

* Unaudited